



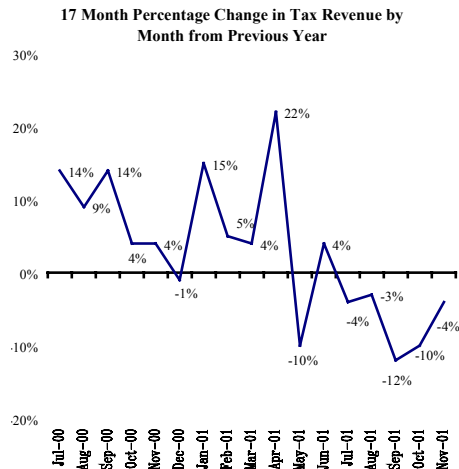
*Martin J. Benison, Comptroller
One Ashburton Place
Boston, MA 02108*

December 19, 2001

***To the Citizens of the Commonwealth of Massachusetts,
Governor Jane Swift, and Honorable Members of the General
Court***

I am pleased to report that through fiscal year 2001 the Commonwealth's financial condition remained strong, however the picture is changing. Since fiscal year 1994 this office has reported that the fiscal health of the Commonwealth is strong. The Commonwealth has enjoyed over seven years of prosperity and growth. The Commonwealth's unemployment level shrunk during the time period by 42% from 205,000 citizens unemployed in 1994 to 86,000 in 2000. At some point the economy was anticipated to slow down. As of June 30, 2001, the Federal Reserve Bank of Boston, in its monthly "New England Economic Indicators," reported that the number of people unemployed in our Commonwealth has increased to 113,000 or a rate of 3.4%. The rate increased to 4.2% in October, the latest figures available. Both rates are under the "full employment" threshold of 5%, but the rate is rising. The same report shows that the consumer confidence index has slipped in our Commonwealth from a rate of 156 a year ago, to 94 as of October, with future expectations for a slower economy. This softening economy is reflected in tax receipts for the first quarter of fiscal year 2002. This softening economy is reflected in tax receipts for the first five months of the fiscal year. The Secretary for Administration and Finance revised his tax revenue estimate downward from nearly \$15.7 billion to over \$14.9 billion, a decrease of over \$700 million. As of the end of November, tax collections totaled nearly \$5.7 billion, or \$450 million below the same period in fiscal year 2001. These results portray a real decline from last year's economic boom.

Prudent planning throughout the 1990s has left the Commonwealth well positioned for this economic slow down. The Commonwealth ends fiscal year 2001 with a \$3 billion surplus in its budgeted funds. Since fiscal year 1991, the Commonwealth's Stabilization Fund, sometimes called the "rainy day fund," has grown from a balance of \$59 million to over \$1.7 billion, its maximum. In addition, in the final set of appropriation acts for the fiscal year, the Commonwealth set aside over \$579 million in fiscal year 2001 surpluses. Of this amount, \$422 million was used to balance the fiscal year 2002 budget, with the remainder held in stabilization. In previous years, year-end transfers of budget surpluses were made to the capital project funds to make strategic investments for the management of the Commonwealth's capital budget, to defease high interest debt that otherwise could not be refunded, and to increase reserves. Similar transfers may not be able to be made during this period of economic slowdown.



The results of fiscal year 2001 helped prepare the Commonwealth for this changing economy. For the eleventh consecutive year, revenues have exceeded expenditures in the governmental funds. As of June 30, 2001, I am now pleased to report a positive Generally Accepted Accounting Principles (GAAP) governmental fund balance of \$4.4 billion. In fiscal year 1990 and fiscal year 1991, the Commonwealth resorted to over \$1.8 billion in deficit borrowing to start down the road of putting its fiscal house in order. In 1991 the Statutory Basis Fund Balance in the budgeted funds was \$237 million. This same balance when computed in accordance with GAAP, was a deficit of \$761 million. Today's GAAP fund balance in excess of \$4.4 billion is the strongest evidence of the Commonwealth's over decade long commitment to conservative budgeting and strategic investments in its future stability to prepare for this slowdown. But, this fund balance contains a considerable amount of funds that are not "free cash." \$1.7 billion of this balance is reserved for Stabilization. Another \$1.8 billion is reserved in capital project funds containing bond proceeds that must be used for the Central Artery / Tunnel Project ("CA/T.")

The Stabilization Fund is a strategic tool at decision makers' disposal to assist the Commonwealth through this difficult time. It may be used in three circumstances. The first is to make up any difference between the actual state revenues and the allowable state revenues in the case of a revenue shortfall. The second is to replace federal funds in the case of a shortfall. Finally, the fund may be used for any event that threatens the health, safety, welfare, or stability of the Commonwealth, including an economic downturn.

As portrayed in the graphics of the monthly change in tax revenues for the past sixteen months, the slowdown is definitely here. The Commonwealth has begun to tap these resources in connection with budget reductions as part of the recently enacted fiscal year 2002 budget. The administration and Legislature have wisely taken a balanced approach using \$806 million from reserves combined with necessary reductions in service levels throughout the state. This assures that the structural gap faced in preparing the fiscal year 2003 budget will be less ominous and reserve will be available in future years. This plan to use surpluses judiciously over multiple years is essential to exiting this economic downturn with a service level that can be supported with available resources.

This Comprehensive Annual Financial Report, ("CAFR,") is prepared by the Office of the Comptroller and we are responsible for the fair presentation of the financial statements of the Commonwealth. The report is presented in three sections: Introductory, Financial, and Statistical. The three sections of the CAFR, as detailed in the table of contents, include the information necessary for the reader to obtain a comprehensive understanding of the Commonwealth's financial position and the results of its operations for fiscal year 2001.

The CAFR is prepared in accordance with GAAP as established by the Governmental Accounting Standards Board ("GASB,") the professional standards of the American Institute of Certified Public Accountants ("AICPA,") the recommendations of the Government Finance Officers Association ("GFOA,") and the requirements of state finance law.

The Office of the Comptroller transmits the Comprehensive Annual Financial Report in accordance with Section 12 of Chapter 7A of the General Laws.

BUDGETED FUNDS OPERATIONS

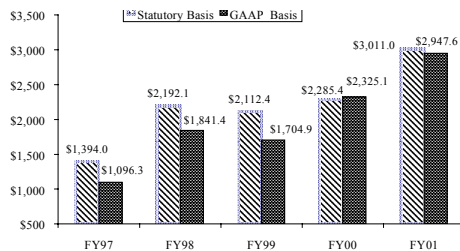
The portion of state finances that generates the greatest degree of interest is the Budgeted Funds. These funds include the General, Local Aid, Highway, and certain Special Revenue Funds which comprise the annual state budget. These funds are also important to analyze as the bulk of their revenues are derived from taxation and federal reimbursements. The expenditures in these funds are largely general governmental operations, Medicaid, Local Aid, debt service and public assistance.

Budgeted Funds Operations - GAAP Basis					
(Amounts in millions)					
	<u>FY97</u>	<u>FY98</u>	<u>FY99</u>	<u>FY00</u>	<u>FY01</u>
Beginning fund balances	\$ 709.2	\$ 1,096.3	\$ 1,841.4	\$ 1,704.9	\$ 2,325.1
Revenues and other financing sources....	18,845.9	20,339.9	20,655.7	25,914.1	23,123.4
Expenditures and other financing uses...	<u>18,458.8</u>	<u>19,594.8</u>	<u>20,792.2</u>	<u>25,293.9</u>	<u>22,500.9</u>
Excess (deficiency).....	387.1	745.1	(136.5)	620.2	622.5
Ending fund balances	<u>\$ 1,096.3</u>	<u>\$ 1,841.4</u>	<u>\$ 1,704.9</u>	<u>\$ 2,325.1</u>	<u>\$ 2,947.6</u>

Budgeted Funds Operations - Statutory Basis					
(Amounts in millions)					
	<u>FY97</u>	<u>FY98</u>	<u>FY99</u>	<u>FY00</u>	<u>FY01</u>
Beginning fund balances	\$ 1,173.0	\$ 1,394.0	\$ 2,192.1	\$ 2,112.4	\$ 2,285.4
Revenues and other financing sources..	19,223.3	21,404.6	21,566.9	26,221.1	23,797.6
Expenditures and other financing uses..	<u>19,002.3</u>	<u>20,606.5</u>	<u>21,646.6</u>	<u>26,048.1</u>	<u>23,072.0</u>
Excess (deficiency).....	221.0	798.1	(79.7)	173.0	725.6
Ending fund balances.....	<u>\$ 1,394.0</u>	<u>\$ 2,192.1</u>	<u>\$ 2,112.4</u>	<u>\$ 2,285.4</u>	<u>\$ 3,011.0</u>

The table of Budgeted Funds Operations - GAAP Basis sets forth a multi-fiscal year view of financial performance for the Budgeted Funds under GAAP, and also provides a comparison to the same funds as accounted and reported under the statutory basis of accounting.

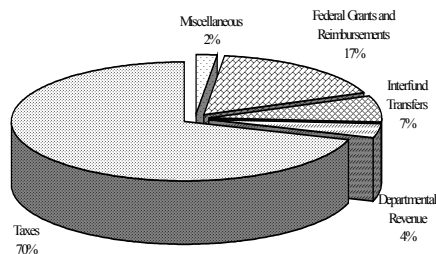
**GAAP VS. STATUTORY
FUND BALANCE**
(Amounts in millions)



On the statutory basis of accounting, which is used to develop the Commonwealth's budget and control its daily activities, the Budgeted Funds have achieved a combined positive ending fund balance since 1991. The GAAP fund balance mirrored this trend also reporting positive fund balances for seven of these eleven years. The GAAP vs. Statutory fund balance chart to the right tracks these fund balances over the last five years demonstrating the close symmetry between the Commonwealth's statutory accounting and GAAP. During this five year period, fund balance increased from \$1.4 billion to \$3.0 billion.

Over the same period on a GAAP basis, operating gains have improved the fund balance from \$1.1 billion to over \$2.9 billion, a cumulative improvement of over \$1.8 billion.

BUDGETED FUND – GAAP BASIS
Revenue and Other Financing Sources

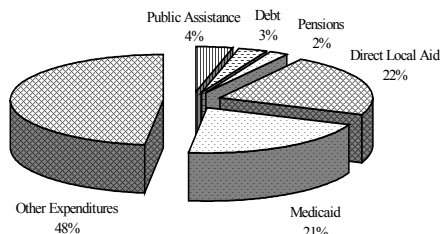


In fiscal year 2001, the revenues and other financing sources in the budgeted funds totaled \$23.1 billion. The Budgeted Funds - GAAP Basis chart shows the percentage of revenue by type contributing to that total. Budgeted Funds expenditures and other financing uses totaled \$22.5 billion. The chart depicts the percentage of each major program in this total.

A comprehensive process is conducted with all departments to convert the statutory basis of accounting to GAAP. System generated reports from the state accounting system and data warehouses are combined with reports from each of the Commonwealth departments to record individual accruals.

There are four major items that account for almost all the difference between the statutory basis reporting and GAAP: the Medicaid program, compensated absences, claims and judgments, and tax revenues.

BUDGETED FUND – GAAP BASIS
Expenditures and Other Financing Uses



For the Medicaid program, expenditures under the statutory basis of accounting are equivalent to cash disbursements. Thus, bills for services rendered during the fiscal year but not paid, or rate adjustments owed but not paid, are not measured in that year. Rather, they are reported statutorily in the next fiscal year when the cash is received or paid. Under GAAP however, such items are accrued, so that all expenditures are consistently correlated to the fiscal year to which they pertain.

The Medicaid expenditures measured on a GAAP basis for fiscal year 2001 were \$4.8 billion, which is 9% higher than fiscal year 2000. The value of this liability in fiscal year 2001, net of federal reimbursement, was \$358.1 million. For several years, the Commonwealth aggressively pursued a policy to constrain expenditure growth in Medicaid, thus helping to balance the overall budget. For the last couple years, Medicaid has grown at rates higher than the overall budget.

This growth is at least partially due to the Commonwealth's expanded eligibility for services, initiated in fiscal year 1998. It is important to assure Medicaid service conforms to affordable growth in the overall budget.

The second difference is compensated absences. Under the statutory basis of accounting, the vacation and sick time taken by employees is

expensed as it is used. Under GAAP, the amounts owed for vacation earned but not yet taken, and certain amounts of sick leave earned, are accrued and reported as expenditures of the current fiscal year. This accrual increased 30% in fiscal year 2001 due primarily to changes in accrual policies that coincided with the implementation of a new single human resources and payroll system. After accounting for this one time change the liability and usage trend for compensated absences has been relatively consistent. The liability accrued in fiscal year 2001 was \$223.8 million.

The third difference is claims and judgments. Under the statutory basis, amounts owed as a result of lawsuits for torts, tax disputes, eminent domain land takings, or other legal actions are not measured as expenditures until the issue is adjudicated and the settlement is paid. Under GAAP, an analysis is performed on all pending litigation, and an amount is accrued for that portion of litigation where a settlement against the Commonwealth is considered probable and reasonably estimable. Just under \$30 million has been recorded as the current year accrual.

The fourth difference between statutory and GAAP relates to the recognition of tax revenue. A taxpayer's obligation incurred during a fiscal year usually is not fully collected until the ensuing fiscal year; under the statutory basis of accounting this revenue is not recognized until the cash is received. However, under GAAP, an analysis is conducted in conjunction with the Department of Revenue ("DOR,") and an accrual for revenue earned is computed. In fiscal year 2001, the value of accrued tax revenue from all sources was \$559.9 million.

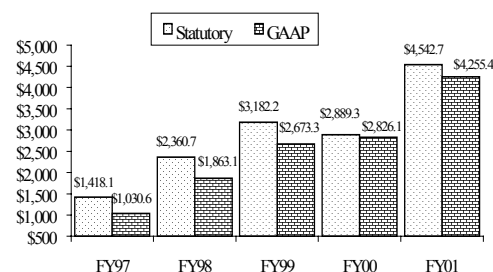
A large number of other accruals are recorded in all funds for things like receivables for fees and fines or receivables and payables between the Commonwealth and its authorities but these accruals do not aggregate to a significant adjustment to fund balance.

GOVERNMENTAL FUND OPERATIONS

The Governmental fund type includes all funds where the Commonwealth imposes its sovereign authority to collect revenues and authorize expenditures. This includes all Budgeted Funds as previously described (General and several Special Revenue Funds,) all other (non-budgeted) Special Revenue Funds, and the Capital Project Funds. When viewed as a whole, these funds portray the Commonwealth's comprehensive governmental financial activity. The five-year trend of operations, on a GAAP basis, is summarized in the table.

The Commonwealth bonds for capital projects in arrears. These expenditures and financing sources are recorded in the Capital Projects Funds component of the Governmental Funds total. The practice of bonding in arrears allows for a high degree of certainty in project spending, mitigating a potential adverse tax consequence. As a result of this practice the Governmental Funds positive fund balance includes fiscal year 2001 expenditures that will not be funded by bonds until fiscal year 2002. Between July 1 and December 18, 2001, the Commonwealth issued \$576.8 million in General Obligation Debt to finance these expenditures. In addition, the Commonwealth issued \$350

GOVERNMENTAL FUND BALANCE
Statutory vs. GAAP
(Amounts in millions)



million in Bond Anticipation Notes. All of this amount was reimbursement for expenditures temporarily financed through the Commonwealth's cash flow and the balance has been set-aside to finance expenditures as they occur in the coming year. Also subsequent to year-end, the Commonwealth refunded nearly \$1.2 billion of existing debt taking advantage of favorable interest rates.

Governmental Fund Operations - GAAP Basis
(Amounts in millions)

	<u>FY97</u>	<u>FY98</u>	<u>FY99</u>	<u>FY00</u>	<u>FY01</u>
Beginning fund balances	\$ 644.6	\$ 1,030.6	\$ 1,863.1	\$ 2,673.3	\$ 2,826.1
Revenues and other financing sources.....	27,372.9	31,249.3	33,272.7	38,174.4	39,256.4
Expenditures and other financing sources..	<u>26,986.9</u>	<u>30,416.8</u>	<u>32,462.5</u>	<u>38,021.6</u>	<u>37,827.1</u>
Excess	386.0	832.5	810.2	152.8	1,429.3
Ending fund balances	<u>\$ 1,030.6</u>	<u>\$ 1,863.1</u>	<u>\$ 2,673.3</u>	<u>\$ 2,826.1</u>	<u>\$ 4,255.4</u>

The Central Artery / Tunnel Project has frequently been referred to as the largest public works project in the history of the United States and an engineering masterpiece. Recently the cost of the project has been the target of public scrutiny.

As indicated in the Notes to the General Purpose Financial Statements, the financial disclosure portion of the project is under review with various federal agencies. The Commonwealth has aggressively responded to these concerns regarding the integrity of the cost estimates. For the second year, an independent evaluation of the entire estimate for the project has been undertaken. In the proposed finance plan released August 31, 2001, the cost of the project has risen \$400 million to \$14.475 billion. It is important to note that the federal government has capped its contribution to this project. The Central Artery's current finance plan includes state sources to fund this increase. The plan also reported that the project is over 69% complete.

Central Artery / Tunnel Project
(Amounts in Billions)

Sources of Funds	<u>2001</u>
Federal Funds	\$7.049
GANS	1.500
Massachusetts Turnpike Authority	1.706
Massachusetts Port Authority	0.300
Other Commonwealth Debt	3.077
Commonwealth Operating Funds and Investment Earnings	<u>0.843</u>
Total Sources	<u>\$14.475</u>
Costs of Construction	
Actual Costs through of FY2001	\$10.425
Estimated Spending:	
Fiscal year 2002	1.472
Fiscal year 2003	1.122
Fiscal year 2004	0.985
Fiscal year 2005	0.336
Fiscal year 2006	<u>0.135</u>
Total Estimated Costs of Construction	<u>\$14.475</u>

The bulk of the spending remaining on the Project will occur during fiscal year 2002 and fiscal year 2003. Completion is expected to be during fiscal year 2006. However, a leak has developed in the tunnel sections of Interstate 90 under the Fort Point Channel in Boston. As of October 1, 2001, the estimate of the opening of this phase of the project has been pushed back at least two months, from September 2002 to November of 2002, at the earliest.

Pursuant to statute and agreements with the Massachusetts Turnpike Authority (the "MTA") and the Massachusetts Port Authority ("MassPort,") the entities have committed to significant ongoing contributions to the Commonwealth as part of the financing for this project. These funds are in addition to funds from the Commonwealth and federal funds for the project.

The Special Revenue funds receive all revenues from the Master Settlement Agreement (“MSA”) between the states and the tobacco industry to recover health care costs for tobacco related illnesses. The MSA estimates the Commonwealth revenues for the first 25 years of the settlement at approximately \$7.6 billion. However, this estimate is prior to future adjustments for inflation and changes in the volume of domestic cigarette sales. The original statute creating the Trust Fund required that 30% of payments into the fund and investments thereon be transferred to the budgeted funds for appropriation by the Legislature. In fiscal year 2001, the Commonwealth received \$242 million or 87% of the estimated amounts shown in the settlement agreement. Of the \$242 million, \$82 million was transferred to the Tobacco Settlement Fund, a budgeted fund. For fiscal years 2002 through 2004, the legislature has increased to 50% the amount available for appropriation. The majority of expenditures from this fund were for Health and Human Services, Elder Affairs and Medicaid costs.

Beginning in fiscal year 2001, a board of public and private sector investment experts, appointed by the Governor, the Attorney General and the Treasurer-Receiver-General, began managing the investment of funds in the Health Care Security Trust Fund, which receives all funds in the MSA due to the Commonwealth. This board has broad discretion on investment choices to increase the assets in the fund.

INTERNAL SERVICE FUNDS

The Commonwealth maintains for GAAP reporting purposes four Internal Service Funds. These funds account for (1) the operations of the State Employees Workers’ Compensation Program, (2) owner controlled insurance program for the Central Artery/Tunnel Project, (3) for the health insurance programs administered by the Group Insurance Commission and (4) managing Commonwealth tort claims.

Internal Service Fund Operations					
(Amounts in millions)					
	<u>FY97</u>	<u>FY98</u>	<u>FY99</u>	<u>FY00</u>	<u>FY01</u>
Beginning retained earnings (deficits).....	\$ (151.0)	\$ (140.3)	\$ (102.9)	\$ (87.0)	\$ (73.9)
Operating gain (loss).....	3.2	26.6	1.0	(2.7)	(38.3)
Other revenues	<u>7.5</u>	<u>10.8</u>	<u>14.9</u>	<u>15.8</u>	<u>12.2</u>
Ending retained earnings (deficits).....	<u>\$ (140.3)</u>	<u>\$ (102.9)</u>	<u>\$ (87.0)</u>	<u>\$ (73.9)</u>	<u>\$ (100.0)</u>

The Human Resource Division of the Commonwealth administers the Commonwealth's self-insured State Employees Workers’ Compensation Program. Revenues of the program represent amounts charged to the various Commonwealth departments. Expenses are for claims and settlements, and accrued expenses for incurred claims, which will be paid in the future.

The traditional policy followed by the Commonwealth has been to set “chargebacks” to Commonwealth departments equivalent to claims actually paid, typically referred to as a “pay-as-you-go” approach.

As a result, an unfunded actuarial liability of \$262.3 million has accumulated, of which \$35.8 million is expected to be paid within one year. The Commonwealth should consider a plan to base annual chargebacks on an actuarial valuation, thus eventually funding such liability.

For the Central Artery/Tunnel Project, the Executive Office of Transportation and Construction, with the approval of the Federal Highway Administration, has created a special program to cover all participants' workers' compensation and general liability claims on the project. In this arrangement, annual premiums and investment earnings are accumulated by the insurance carrier and held in trust on behalf of the Commonwealth to fund current and future claims. This approach has been universally viewed as a cost effective alternative to the traditional approach of each contractor and subcontractor purchasing insurance for their workers. The benefits, in addition to economies of scale, come from eliminating disputes between insurance carriers of responsibility for claims and the instituting of comprehensive safety programs at the project. The approach is reducing the financial impact to the federal government and the Commonwealth of a potentially expensive component of the large, multi-year construction project.

While the concept has been sound, serious questions have been raised regarding the funding levels and funding methods of the program as well as the responsiveness of the insurance carrier, American International Group (AIG). The Commonwealth needs to increase its management oversight of this program. The Highway Department has begun to address these issues by engaging independent auditors and actuaries to review the funding of the programs and the handling of these Commonwealth assets. The work must be completed. Annual audits including actuarial reports should be conducted and be filed on a timely basis.

The Group Insurance Commission manages the health insurance program for Commonwealth employees, retirees, and their beneficiaries. Revenues to the program are amounts contributed by individuals, participant organizations, or by the Commonwealth. The expenses are claims and accruals for claims incurred but not reported. The accumulated balance, a small deficit, is not material to the size of the program, suggesting that symmetry of revenues to expenses is reasonable and change is not warranted.

The Liability Management Reduction Fund is used for chargebacks assessed to departments as premiums for the provision of insurance coverage for state agencies to cover payment of judgments, settlements and litigation costs in tort claims. Through this fund, as well as other measures, the Commonwealth departments have a greater role in managing these costs.

FIDUCIARY FUND OPERATIONS

The Fiduciary type of funds consists of funds where the Commonwealth is acting as an agent, or steward for funds, on behalf of another party. The Fiduciary Fund Type includes the Expendable Trust, Non-expendable Trust, Pension Trust, External Investment Trust and the Agency Funds.

The Nonexpendable Trusts account for assets held with restrictions and the Agency funds account for assets managed temporarily on behalf of other parties.

The Expendable Trusts ended fiscal year 2001 with a fund balance of \$5.7 billion. This balance is composed of \$296.3 million in various Commonwealth held Expendable Trusts, \$2.3 billion in the Unemployment Compensation Trust Fund and \$3.1 billion in the Deferred Compensation Trust.

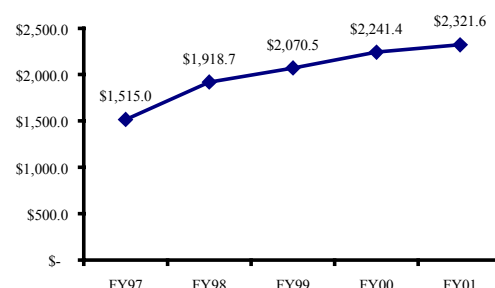
The External Investment Trust is comprised of the portion of investments held by the State Treasurer and Receiver - General on behalf of political sub-divisions in the Massachusetts Municipal Depository Trust ("MMDT.") The MMDT was established by the State Treasurer as a pooled investment trust.

The Commonwealth is responsible for the payment of pension benefits to its employees and to the teachers of the cities, towns, and regional school districts. It manages the operations of both the State Employees' Retirement System ("SERS") and Teachers' Retirement System ("TRS") and reports the results of operations and net assets available to fund employee pension benefits as Pension Trust Funds. Pursuant to the pension reform laws, the Commonwealth funds its pension liabilities on a long-term schedule. It is the responsibility of the Public Employee Retirement Administration Commission ("PERAC") to complete actuarial updates for the funding schedule. The current funding schedule is designed to fully fund the systems by fiscal year 2018. Coupled with the large balance in the unemployment trust fund this progress in funding the Commonwealth pension system are examples of the Commonwealth wisely using good times to prepare for the inevitable downturn.

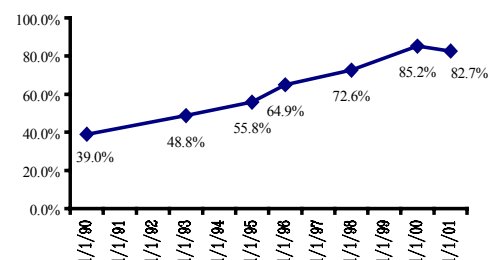
The Pension Funding Progress Graph presents the excellent results over the past eight years of meeting the objective of having a fully funded plan. Note 10 details the progress by system.

The following table presents a five-year trend analysis of the Pension Trust Funds Operations. The net reduction in revenue of \$465.8 million is the result of change in fair value of pension investments during the fiscal year when netted with contributions and other income.

Fund Balance
For Unemployment Compensation Fund
(Amounts in millions)



Pension Funding Process
Funded Ratio



*Source: Public Employee Retirement Administration
Commission Actuarial Valuation Report – 1/1/01*

Pension Trust Funds (Amounts in millions)					
	FY97	FY98	FY99	FY00	FY01
		(as restated)			
Beginning fund balances	\$ 15,956.2	\$ 19,560.0	\$ 23,960.0	\$ 27,112.3	\$ 31,579.4
Revenues (Net Reduction).....	4,729.4	5,644.0	4,517.1	5,944.3	(465.8)
Expenses.....	<u>1,125.6</u>	<u>1,244.0</u>	<u>1,364.8</u>	<u>1,477.2</u>	<u>1,610.2</u>
Excess (Deficiency).....	3,603.8	4,400.0	3,152.3	4,467.1	(2,076.0)
Ending fund balances.....	<u>\$ 19,560.0</u>	<u>\$ 23,960.0</u>	<u>\$ 27,112.3</u>	<u>\$ 31,579.4</u>	<u>\$ 29,503.4</u>

UNIVERSITY AND COLLEGE FUNDS

Since fiscal year 1993, the CAFR has presented the University and College system in accordance with the AICPA Industry Audit Guide, "Audits of Colleges and Universities." This presentation combines financial activity from all fund types for:

- The University of Massachusetts, including its campuses at Amherst, Boston, Dartmouth and Lowell.
- The State College system of nine state colleges, which provide four-year post-secondary education, and the State College Building Authority.
- The Community College system of fifteen community colleges, which provide two-year post-secondary education, programs.

The University and College Fund Type reports a positive GAAP fund balance. Approximately \$3.0 billion of this fund balance is restricted or designated in plant funds, endowment funds, or other purposes.

University and College Fund Type Operations (Amounts in millions)

	FY97	FY98	FY99	FY00	FY01
Beginning fund balances.....	\$ 2,363.3	\$ 2,512.2	\$ 2,621.0	\$ 2,768.0	\$ 2,944.3
Revenues and other additions.....	1,823.7	1,461.6	1,506.8	1,631.4	1,652.4
Expenditures and other deductions.....	2,381.8	2,053.9	2,218.1	2,374.6	2,592.9
Net transfers, including state appropriations.....	707.0	781.2	858.3	934.6	1,067.3
Net assets transferred to UMass Memorial Health Care, Inc.....	-	(70.5)	-	-	-
Loss from discontinued operations	-	(9.6)	-	(15.1)	(4.2)
Net Increase	148.9	108.8	147.0	176.3	122.6
Ending fund balances.....	<u>\$ 2,512.2</u>	<u>\$ 2,621.0</u>	<u>\$ 2,768.0</u>	<u>\$ 2,944.3</u>	<u>\$ 3,066.9</u>

In fiscal year 2001, the University and 22 out of 24 colleges are commended for producing stand-alone audited financial statements on a timely basis in conformity with GAAP. These 23 institutions have demonstrated accountability to their trustees, the Governor and Legislature, and to all concerned parties, by preparing financial statements in accordance with GAAP.

For several years both the Comptroller's Office and the Board of Higher Education have encouraged all schools as a matter of policy, to commit the requisite resources and effort to produce stand-alone audited financial statements. The role of publicly subsidized higher education is important to the continued enhancement of the Commonwealth's economy and quality of life. The broad flexibility over financial matters granted the institutions warrant accountability through annual audits. All 25 institutions producing timely audited financial statements on a consistent basis is a goal we must continue to work towards.

COMPONENT UNITS

The Commonwealth's relationship to the independent public authorities, reported as Component Units, is based on statute and contracts between the Commonwealth and these entities.

Component Units Operations					
(Amounts in millions)					
	Beginning Fund Balance/ Retained Earnings	Operating Gain/ (Loss)	Subsidy	Other Changes	Ending Fund Balance/ Retained Earnings
Massachusetts Bay Transportation Authority.....	\$ (98)	\$ (646)	\$ 799	\$ 82	\$ 137
Massachusetts Turnpike Authority.....	344	42	-	67	453
Regional Transit Authorities.....	6	(99)	50	48	5
Massachusetts Water Pollution Abatement Trust.....	122	(13)	8	141	258
Massachusetts Development Finance Agency.....	164	(9)	51	(54)	152
Massachusetts Convention Center Authority.....	11	(16)	17	4	16
Massachusetts Technology Park Corporation	16	-	-	-	16
Corporation for Business Work and Learning.....	12	(60)	9	51	12
Massachusetts Community Development Finance Corporation.....	2	(1)	-	(2)	(1)
Community Economic Development Assistance Corporation.....	70	13	-	1	84
Mass. Interaction.....	8	(15)	4	4	1
Massachusetts Housing Partnership.....	17	5	4	(9)	17
Route 3 North Transportation Improvements Association.....	-	-	-	-	-
Commonwealth Zoological Corporation.....	8	(6)	11	1	14
Massachusetts International Trade Council.....	1	(1)	1	-	1
Total.....	<u>\$ 683</u>	<u>\$ (806)</u>	<u>\$ 954</u>	<u>\$ 334</u>	<u>\$ 1,165</u>

The Mass. Interaction (formally MCET) will be liquidating during fiscal year 2002. The United States Department of Education has agreed to allow them to transfer their remaining grants to a not-for-profit entity. The financial statements presented for fiscal year 2001 are on the liquidation basis of accounting. For those interested in more detailed information on the working of these political subdivisions of the Commonwealth, Note 1 to the financial statements provides contact information where audited financial statements for each of these entities may be obtained.

INDEPENDENT AUDIT

The firm of Deloitte & Touche LLP, together with subcontractors Daniel Dennis & Company, Margaret Carr, CPA and Susan Perna-Damon, CPA, and assisted by the Office of the State Auditor ("OSA,") have performed an independent audit of the Commonwealth's general purpose financial statements for the fiscal year ended June 30, 2001. OSA also plays a large role in the simultaneous audit of the Schedule of Federal Financial Assistance of the Commonwealth, as prescribed in the Federal Office of Management and Budget's Circular A-133.

An integral part of any audit of financial statements is a plan that the audit obtains reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. When performing an audit in accordance with applicable standards, the auditors obtain a sufficient understanding of the Commonwealth's internal controls to enable them to properly plan the audit and to determine the nature, timing and extent of the audit procedures to be performed. However, because of the characteristics of fraud, a properly planned and performed audit may not detect such illegal acts.

The OSA is statutorily mandated to perform audits of the accounts, programs, activities and functions of all departments, offices, commissions, institutions and activities of the Commonwealth. OSA provides its knowledge, expertise, experience and resources as a participant in the single audit of the Commonwealth, which encompasses all of the Commonwealth's financial operations. A more complete discussion of this work can be found in the State Auditor's semi-annual report available on their web site: <http://www.state.ma.us/sao>.

We express our gratitude to the staff of the respective firms and the Office of the State Auditor for their professionalism, advice and counsel. The independent auditor's report is presented in the Financial Section.

INTERNAL CONTROL ENVIRONMENT

Chapter 647 of the Acts of 1989, places authority and responsibility for internal controls with the head of each executive department, constitutional office, and branch of government. The Office of the Comptroller issues internal control guidelines and the Office of the State Auditor may investigate departments with risk of internal control weaknesses.

The Office of the Comptroller continues to deliver training sessions and workshops for department managers regarding risk assessment and mitigation in the Commonwealth's highly automated environment.

Absolute assurance with respect to internal control is prohibitively expensive. Using risk assessment criteria set forth in the guidelines and stressed in the training, the objectives of the Commonwealth's internal control structure are to provide management and the public with reasonable assurance that internal control systems do not have material weaknesses.

The Office of the Comptroller has been working to further strengthen the guidance for Internal Controls for the Commonwealth through a statewide Internal Control Campaign. Using the Committee of Sponsoring Organizations ("COSO") Report of the Treadway Commission as a basis, the office has issued an expanded and updated Internal Control Guide for managers of the Commonwealth. The goal of this effort is to present a sound set of practices that enhance financial credibility throughout the Commonwealth.

As part of the fiscal year 2001 audit, the Commonwealth continued the emphasis on the analysis of departmental internal control plans. The

goal is to have departments not just think of their plans as fiscal control documents but management documents that assess risk across all programmatic areas of the department and document strategies to mitigate those risks. The plans, which included developing customized training for particular departments, scheduling monthly internal control classes, devoting hundreds of single audit hours in the review of internal control plans, development of internal control models and risk assessment techniques and making managers generally aware of the importance of these controls. As a result of this emphasis, the number of current year findings have decreased, the findings repeated from previous years have decreased, and the findings resolved in one year reached an all time high. We clearly have the attention of our departments and plan to continue this focus next year through the continuation of the education process, expansion into program areas to compliment our success in the financial arena, and increased communication of internal information at all levels of government.

REPORTING ENTITY

The financial statements incorporate the 156 departments, agencies, boards, commissions, institutions of higher education, the judicial and legislative branches of government, and constitutional offices.

The departments record their daily financial operations in the state accounting system called the Massachusetts Management Accounting and Reporting System (“MMARS”) operated by the Office of the Comptroller.

In addition, the financial statements include independent public authorities and the State Employees’ and Teachers’ Retirement Systems. These component units meet the criteria for inclusion in the reporting entity in accordance with GAAP, which are further described in Note 1 to the general purpose financial statements.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

MMARS is the computerized, statewide accounting system used by all departments to control and account for their financial activity under the statutory basis of accounting. The financial operations of the authorities and certain non-appropriated higher education funds are accounted for through their own independent accounting systems.

MMARS is designed to satisfy all requirements of the Commonwealth’s statutory basis of accounting and financial reporting. Any additional information needed to prepare financial statements according to GAAP is provided through a combination of MMARS system-generated data, information compiled by departments, and the submission of audited financial statements from certain independent authorities.

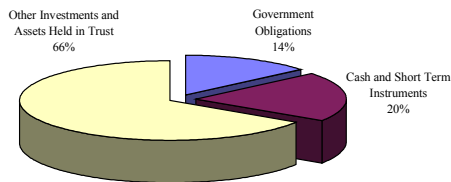
During fiscal year 2001 and for the next three years, the Commonwealth will take steps to upgrade MMARS from a “green screen” mainframe-based system to one that is an Internet based application. We believe that it is time to upgrade the system to take advantage of current and future technologies to position the Commonwealth to provide seamless

integration of its e-government applications to its “back-end” budgetary control and financial management systems.

Note 2 to the general purpose financial statements provides a reconciliation between the General and Budgeted Special Revenue Funds on a statutory basis and the GAAP basis presented in the general purpose financial statements.

CASH AND INVESTMENTS

***Cash and Investment
Primary Government at June 30, 2001
(Amounts in millions)***



* Includes amounts that are in Pension Trust Funds

The State Treasurer and Receiver – General controls cash and investments with the exception of pension assets, which are managed by the Pension Reserves Investment Trust. Each department deposits cash receipts daily into a Treasury controlled bank account. Weekly and daily warrants for disbursements are prepared by the Comptroller, and reviewed and approved by the Governor’s Council; the Treasurer issues disbursements. The banking and disbursement process has been recently streamlined to optimize the use of electronic funds transfer and electronics benefits transfer.

A system of bank depository and disbursement accounts and “lockboxes” are employed by the Treasurer’s Office to maximize daily cash balances. The Treasurer manages these cash balances in MMDT and other funds to optimize interest earnings. The Treasurer’s Office invests cash from these general accounts in short-term securities and other investments. A discussion of cash and investments is presented in Note 3 to the general purpose financial statements.

The Treasurer is also responsible for quarterly cash flow plans, weekly variance reporting and, jointly with the Executive Office for Administration and Finance, annual and quarterly cash management plans. Taxes and non-tax inflows, warrants, other outflows, and short and long-term borrowings are monitored against these plans.

Fiscal year 2001 is the eighth year of the Commonwealth’s implementation of the U.S. Cash Management Improvement Act (“CMIA.”) The CMIA requires the states to measure interest income on federal funds drawn from the U.S. Treasury prior to disbursement, and for the U.S. Treasury to measure interest income on funds drawn down subsequent to disbursement. A settlement of interest due to or due from the Commonwealth and federal government is computed.

***Long - Term Debt
(Amounts in billions)***

Fiscal Year	Authorized - Unissued	Principal Outstanding
2001	\$9.3	\$14.0
2000	11.5	12.4
1999	12.0	11.8
1998	12.3	11.0
1997	12.0	10.3

DEBT

The Commonwealth funds its capital appropriations by authorizing the issuance of long-term bonds. The Long-Term Debt table sets forth the trend of the Commonwealth’s tax-supported long-term indebtedness for the last five years.

To limit the Commonwealth debt burden, and control the degree to which debt service creates pressure on the operating budget, the Administration has implemented a five-year capital spending

plan. This administrative policy has existed for several years, and the effect of debt service on the operating budget is depicted on the graph of Debt Service as a Percent of Governmental Expenditures.

In fiscal year 1997, Standard and Poor's upgraded the rating for the Commonwealth's General Obligation Debt from "A+" to "AA-". The effect of the capital spending plan policy, the acceleration of funding of the Commonwealth's pension liability and the string of operating surpluses were cited as reasons for the upgrade. The current credit ratings from Moody's is Aa2 and Fitch Investor Services is AA-.

As authorized by state finance law, the State Treasurer may utilize short-term borrowing to support governmental cash flow. Other debt consists of certificates of participation and capital lease agreements. Such financing arrangements are used to acquire capital assets, for example computer equipment and motor vehicles. The Commonwealth continued to utilize this form of financing in fiscal year 2001.

Additional information on Commonwealth debt, including guaranteed debt of independent public authorities, is presented in Notes 7, 8, and 12 to the general purpose financial statements.

During fiscal year 2001, the Commonwealth issued a significant amount of debt for various purposes. Details of the debt issuance are portrayed in the table Commonwealth Debt Issuance – Fiscal Year 2001. The Commonwealth also defeased debt through the use of \$650 million of transfers and operating surplus through the escrow and irrevocable trust with an escrow agent that purchased U. S. Government securities. Through this action, the Commonwealth defeased debt service payments of approximately \$624 million, plus related unamortized discount, during fiscal year 2001, with an additional \$33 million occurring on July 1, 2001. The savings from this defeasance was used to fund the CA / T pursuant to the finance plan passed during fiscal year 2000.

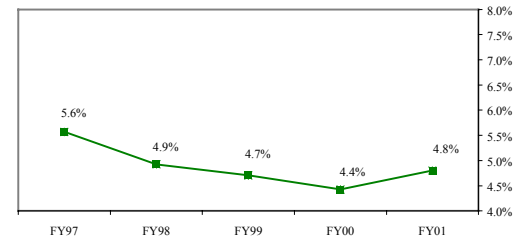
RISK FINANCING

The Commonwealth assumes the risk of loss for property damage and personal injury, breach of contract, condemnation proceedings, and other alleged violations of law, and is defended by the Attorney General's Office in such cases. In fiscal year 2001, approximately \$32 million was expended to settle such claims in special and existing appropriations. Based on the Attorney General's evaluation of cases in which it is probable that a judgment will be rendered against the Commonwealth, and a loss incurred, as well as future payments due from previously settled cases, an additional \$27.0 million has been accrued in the Governmental Funds at June 30, 2001.

ECONOMIC AND FINANCIAL PROSPECTS

Massachusetts and the rest of the nation are in the midst of a profound economic downturn exacerbated by the events of September 11th. Even though our Commonwealth is home to many world-renowned institutions of medicine and higher

Debt Service as a Percent of Governmental Expenditures



*Includes Defeased Debt Service in fiscal year 2001

Commonwealth Debt Issuance

**Debt Outstanding as of
June 30, 2000** **\$12,383,101**

New Debt

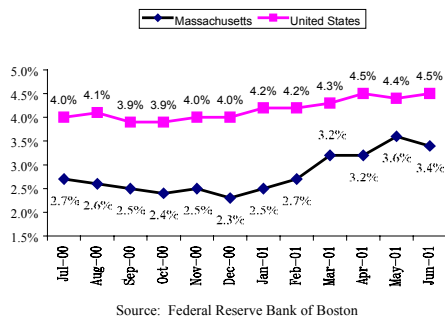
General Obligation Bonds including Fixed Rate, Variable Rate, Auction Rate, Demand Bonds and College Opportunity Bonds	1,752,198
Grant Anticipation Notes	577,605
Refund Bonds	964,645
Total New Debt Issued	3,294,448

Retired Debt

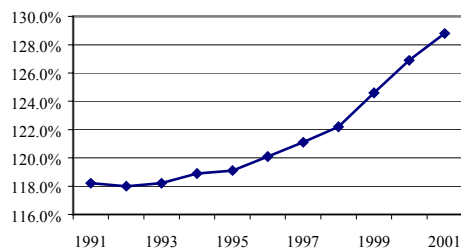
Refunded Debt	(911,270)
Defeased Debt with Cash	(638,853)
Retired Debt	(127,972)
Total Debt Retired	(1,678,095)
Net Debt Issued (Retired)	1,616,353

**Debt Outstanding as of
June 30, 2001** **\$13,999,454**

Monthly Unemployment Rate July 2000 – June 2001



Massachusetts vs. United States Year to Year Per Capita Net Income Change 1991 – 2001



education, both public and private, keeping the economy relatively stable and full of ingenuity, no sector is immune from the economy. Tourism, a significant component of our economy, is our third largest industry. Most economic data points to a significant drop in activity in the short term for the tourism industry. According to a report released by the Massachusetts Office of Travel and Tourism on October 10, 2001, the lodging industry component alone is expected to lose \$241 million in sales this year post September 11th. Overall, the lodging industry, according to the report is expected to generate over \$324 million less in sales this year than in 2000.

Massachusetts' employment had been growing steadily since 1992. The Massachusetts' seasonally adjusted unemployment rate, currently at 3.4%, remains below the national seasonally adjusted rate of 4.5% as of June 30, 2001. Massachusetts' rate however, has risen quickly from a low of 2.3% in December of 2000. Also as of June 30, 2001, Commonwealth per capita income still outpaced the nation as shown in the [Massachusetts vs. United States Year-to-Year Per Capita Income Graph](#). This graph shows that Massachusetts's per capita income level has been and is increasingly growing compared to the rest of the nation.

The Commonwealth, with an international reputation for medical, cultural, historical, and educational institutions, remains the economic and educational hub of New England. The Commonwealth's economy remains diversified but its strongest component is its knowledge-based technology and service industries.

Massachusetts' infrastructure provides strong support for this knowledge-based economy. There are over 120 colleges and universities located in Massachusetts, and the 2000 US Census has estimated that 35% of the residents over age 25 have earned bachelor's degrees, compared to an estimate of 25.1% for the United States as a whole. Our capital, Boston, has over 20 hospitals and three medical schools.

Inflation continues to largely be in check. The Boston consumer price index though has risen 4.9% from July 2000 to July 2001, as opposed to only 3.0% for the rest of the country.

The Commonwealth did not finalize its fiscal year 2002 budget until December 5th. In the absence of a budget, the Commonwealth had operated under a provisional budget of \$22.6 billion, virtually all of which was comprised of the lower of the House or Senate budget proposals for each respective budgeted line item. Budgeted revenues and other sources, as estimated by the Executive Office for Administration and Finance, however, were projected at approximately \$21.5 billion, including transfers and other receipts. The estimate assumes tax revenues will be 7.1% lower than the fiscal year 2001 actual collections of \$16.0 billion, after accounting for sales tax funds dedicated to the MBTA. This estimate also reflects the impact of two tax cuts effective for calendar year 2001.

On November 7, 2000 Massachusetts's voters approved two initiative programs that reduced personal income taxes beyond what was in the fiscal year 2000 budget. A 5.85% rate was effective for tax year 2000 and a 5.8% rate was effective on January 1, 2001. The voters reduced the 2001 rate to 5.6%, the 2002 rate to 5.3% and thereafter to 5%. This rate reduction has an impact of \$135 million in fiscal year 2001 rising to \$1.2 billion when fully implemented in fiscal year 2004. Economic theory suggests that the tax reduction will return to the Commonwealth in the form of increased spending activity and therefore, higher tax receipts. In the short run, it will also force the Commonwealth to live within the means that the citizens have stipulated.

Charitable donations will also be deductible from earned income beginning in tax year 2001. This has an estimated impact of \$80 million in 2001 and \$192 million when fully implemented. The charitable deduction will help stimulate the not-for-profit sector in the Commonwealth.

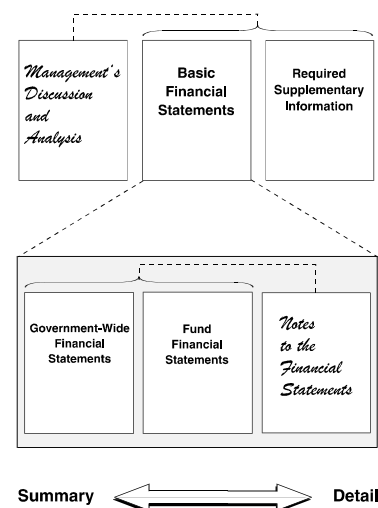
After accounting for vetoes and overrides in the budget as passed, the Executive Office for Administration and Finance projects the Commonwealth's total budgeted expenditures and other uses in fiscal year 2001 at \$22.1 billion. This estimate assumes the spending in the Commonwealth will decrease by 1.4% from fiscal year 2000.

The Administration is engaged in an extensive mid-year review of this estimate. The Governor will release her recommended budget for fiscal year 2003 in late January, at which time the fiscal year 2002 forecast may be revised.

GASB 34 IMPLEMENTATION

2001 is the final year of this report in its present form. Since June 30 1999, the Commonwealth has been in the process of implementing GASB Statement 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments." We are also implementing the related statements, number 35, which applies GASB 34 to Public Colleges and Universities, number 37, which is a partial restatement of GASB 34 and number 38, "Certain Financial Statement Note Disclosures." The effect of these changes will be profound in the 'look and feel' of the financial statements. It will also portray a more holistic view of the Commonwealth on the face of its financial statements, including infrastructure assets for the first time. The financial effect of these changes has not been quantified at this time. We are working diligently with all of the component units, schools of higher education, infrastructure agencies such as the Division of Capital Asset Management and the Highway Department and of course, the Information Technology Division to assure that all is in order for the implementation which is required for fiscal year 2002. Our challenge is to convert all of these entities as uniformly as possible. Our goal is to present the Secretary for Administration and Finance a restated set of fiscal year 2001's financial statements under the new presentation later this spring.

Required Components of the Commonwealth's Fiscal Year 2002 Annual Financial Report under GASB 34



The major components of the new financial statements will include a Management's Discussion and Analysis, which will look somewhat like our current introduction, but with more financial analysis. The holistic view will be presented in the Government-wide financial statements – essentially a layering of new information on top of the current fund perspective financial statements. There will be the new Note format and a budgetary statement will be presented as required supplementary information. We believe that this redesign will be easier for the average reader to understand the complete financial picture of the Commonwealth.

We are working closely with the GASB, the National Association of State Auditors, Comptrollers and Treasurers ("NASACT") the Association of Government Accountants ("AGA") and GFOA, to implement Statement 34. We have already released implementation guides for our schools of higher education and component units for statements 34 and 35. We are about to release a conversion guide as well. All of this information is available on our website. We are also providing technical assistance and advice to our Cities, Towns and other entities who would like to use our expertise and best practices to apply to their governments. We have taken the first steps to reach our goal of issuing a pro – forma fiscal year 2001 CAFR in GASB Statements 34 and 35 format.

SIGNIFICANT ACCOMPLISHMENTS

In fiscal year 2001, there were a number of significant accomplishments that demonstrate accountability and sound financial management.

GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the Commonwealth for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2000. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports. This is the eleventh consecutive year that the Commonwealth has received this award.

On both a statutory and GAAP basis, the Commonwealth has maintained a positive fund balance for the tenth consecutive year. The Commonwealth Stabilization Fund balance, sometimes called the "rainy day" fund, has grown to its limit of over \$1.7 billion, representing the Commonwealth's reserves for future purposes. In addition, the Commonwealth reserved \$579 million in a transitional escrow fund, largely being used for fiscal year 2002 purposes to help soften the economic blow.

The non-tax revenue optimization campaign was very successful in fiscal year 2001. With special authorization in the budget, a task force was comprised of key persons from the Executive Office for Administration and Finance, the Budget Bureau, and the Comptroller's Office.

The task force provided leadership and sponsored projects by which outside experts were engaged on a contingent fee basis, and departments optimized various sources of non-tax revenue (such as federal reimbursement) by over \$203 million during fiscal year 2001. The initiative is dedicated to optimizing all collection potential within the framework of existing fee structure and program authorizations. The non-tax revenue optimization campaign continues in fiscal year 2002.

RECOMMENDATIONS AND CONCLUSIONS

The Commonwealth has many accomplishments in fiscal year 2001 of which it can be proud. A large number of projects to enhance or re-engineer business processes with new technology have been performed.

The Executive Office of Health and Human Services released a new system, MassCares, designed to provide all its departments and clients information that will enable them to manage services in a holistic manner. In addition, the Commonwealth release it's new intention based web portal Mass.Gov. providing citizen easy access to information and service when they want it. Quick passage of the Information Technology bond is critical to future releases of these new services as well as other projects that will insure the Commonwealth keep pace with new technologies to enhance service to citizens.

The Office of the Comptroller continued to enhance its MassFinance website at <http://www.massfinance.state.ma.us>, adding the ability of citizens, employees and vendors of the Commonwealth to access government information they want – when they want it. Commonwealth vendors can now access their remittance information, including scheduled payment and actual payment information, on-line at their convenience. Most recently, MassFinance was enhanced to allow citizens as well as municipal officials the ability to query local aid payments and assessments. In support of the e-Government initiative, the Office of the Comptroller continues to make improvements enhancing this website by bringing more information and services to the public.

Prior to HRCMS, 68% of employees received their pay through direct deposit. Today, over 93% do, reducing banking costs across the Commonwealth. All payroll deductions have also moved to electronic processes. Checks and paper reports have been replaced with electronic payments and data files for all payroll deductions, such as purchases of transit passes, insurance, annuities and payments among the Commonwealth departments. This project eliminated the control risks and inefficiencies associated with the payment payroll expenditures.

Building upon the observations in this letter, a detailed review of these financial statements suggests the need for action to further improve and strengthen state finance law and fiscal practice.

The Commonwealth should define the term “Chief Fiscal Officer” in law. Central to our partnership with CFO’s is ensuring they are empowered to do the job we ask of them. Too often, a department’s Chief Fiscal Officer is not directly accountable to the Chief Executive Officer of the department. Too often, the CFO does not have the proper

functions reporting to them, enhancing internal controls. We will work to pass legislation strengthening the CFO's role.

The legislature should enact early retirement legislation (ERIP). The current economic climate forces governments to reduce expenditures and act more efficiently. The recently enacted budget makes difficult budget reductions throughout state government. Now state managers are challenged to implement those decisions. ERIP is a valuable tool that will reduce forced separations through layoffs and provide managers with a valuable tool to manager more efficiently.

The Commonwealth must constantly monitor and update its systems and controls. We have asked each department, at its highest levels, to assess its risks and target controls to manage those risks efficiently and effectively. Toward this end, the Office of the Comptroller has continued a multi-pronged effort to improve controls throughout the Commonwealth. This effort must continue.

The Commonwealth must ensure that its bills are paid on time. A solid reputation of timely bill payments benefits both our business partners and the taxpayers. During fiscal year 2000, this office began a campaign with the Chief Fiscal Officers in the 154 state departments to improve the percentage of bills paid within 30 days. The timing and focus on bill paying improved the Commonwealth's bill payment track record this year to 84% of all bills paid within 30 days. This effort will continue until we have reached and maintained a 95% level.

The Commonwealth should reduce the number of funds and eliminate funds that have chronic deficits. The Commonwealth currently maintains over 100 governmental funds to record its financial activity. This excess number of funds fragments the Commonwealth's financial picture. Many of these funds have structural imbalances leading to chronic deficits. The effort to reduce the number of funds should continue. A fund should be a self balancing set of accounts where decision makers want to set aside a specific set of revenues to fund a specific set of activities. Nineteen of the 57 budgeted funds are in the environmental fund group. Fifteen of these nineteen funds contribute to accumulated deficits of \$96.7 million in this fund group.

Cash flow requires careful attention. In difficult times, the Commonwealth cashflow requires careful attention. Much of the Commonwealth surplus funds are reserved and held by the Treasurer segregated from pooled cash. At the same time, many of the Commonwealth deficit funds represent an unbudgeted drain on cash flow. The Commonwealth needs to develop a carefully orchestrated plan to insure sufficient cash is available to make timely payments throughout the fiscal year.

The Commonwealth should continue to emphasize optimization of both tax and non-tax revenues. This statewide campaign has generated nearly \$989 million in revenues since fiscal year 1996. The revenue optimization strategy should continue.

I again would like to express my thanks to the many dedicated people within the Office of the State Comptroller. We have had another successful year within the office. I am proud to have all the employees on my team to help tackle these and other difficult issues of the future.

Respectfully submitted,

Martin J. Benison
Comptroller